Measuring Fife’s Economy








Policy Technology Management

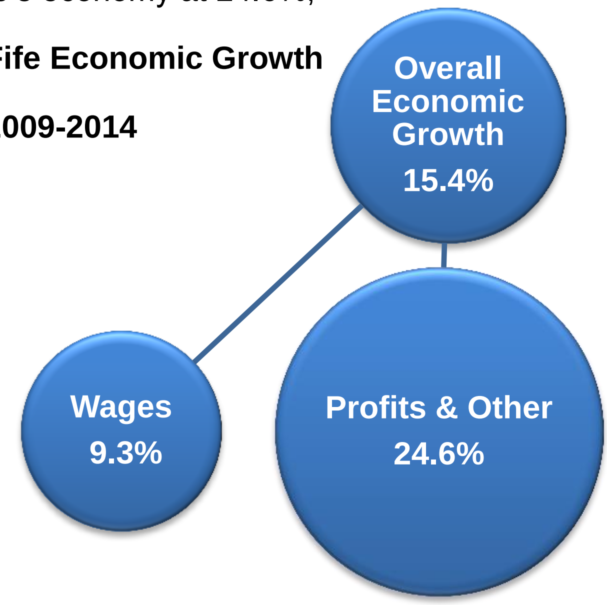
4 consulting

Summary

Since the recession ended in 2009, Fife's economy has expanded by 15.4% in nominal term(including inflation). But wages have grown more slowly 9.3% less than half the rate of growth of other parts of the value added by Fife's economy at 24.6%, including the profits of businesses.

Fife Economic Growth

2009-2014



It is difficult to see how inequality can be tackled when the wages of Fife workers continue to fall short of the growth of companies profits.

International exports from Fife were £1.7 billion, accounting for nearly one quarter (24%) of Fife's £7.1 billion economy.

If the whole of Scotland had matched Fife's ratio of exports to GDP then Scottish exports would have risen by more than one third, nearly an extra £9 billion.

The economy of Fife is boosted by a net increase in wages of around £1.4 billion from commuters living in Fife but working elsewhere. If commuters are accounted for then the Fife economy would be nearly one fifth bigger, worth around £8.5 billion.

Including net commuter earnings the balance of trade stands at around +£700 million or +8.4% of GDP (based on GDP of £8.5 billion). The balance of trade surplus is an important figure as Fife has limited ability to borrow or print money. The trade balance will therefore closely follow the balance of government spending and revenue, the public sector deficit.

The Office for Budget Responsibility (OBR) shows that the UK government may close the deficit by 2019-2020. By any reasonable measure Fife has already closed its deficit and is now running a surplus of hundreds of millions of pounds each year.

Measuring the Fife Economy

Fife hosts one of the largest economies in Scotland but there is no official measure of its size or how quickly it is changing. The economies of Fife and Clackmannanshire are combined together in Office for National Statistics (ONS) publications.

The table below shows the Gross Value Added (GVA) of the Fife economy on its own. This measure is based on the income received by households (in the form of wages) and the operating surplus (which includes the profits of businesses) and taxes minus subsidies on production.

The latest estimate of GVA for the Fife economy for 2014 stood at just over £6.4 billion and the wages paid to employees totalled nearly £2.8 billion.

Fife Economy, Gross Value Added (£ millions)

Component	2009	2010	2011	2012	2013	2014	Change 2009-14
Wages	£3,330	£3,310	£3,340	£3,290	£3,340	£3,640	9.3%
Operating surplus & other	£2,240	£2,280	£2,170	£2,340	£2,770	£2,790	24.6%
GVA (sum of above)	£5,570	£5,590	£5,510	£5,630	£6,110	£6,430	15.4%

SOURCE: 4-consulting (based on Office for National Statistics data)

Since the recession ended in 2009, the Fife economy has expanded by 15.4% in nominal terms (including inflation). But wages have grown more slowly at 9.3%, less than half the rate of growth of the other parts of GVA at 24.6% (this includes the operating profits of businesses).

It is difficult to see how inequality can be tackled when the wages of Fife workers continue to fall short of the growth of companies profits.

Spending in the Fife Economy

The measure of Gross Value Added (GVA) is similar to Gross Domestic Product (GDP) with the latter being equal to GVA plus taxes (minus subsidies) on products, this includes Value Added Tax (VAT) for example. Taxes minus subsidies on products were measured at £640 million across Fife in 2014. This means GDP stood at £7.1 billion (£6,430 million plus £640 million).

GDP can be measured in three different ways; through the output of industries, through the different types of spending in the economy and through the income earned by households and businesses (this is the approach used to measure GVA and GDP above).

GDP can be broken down into categories of spending and is equal to consumer spending, government spending, capital investment plus the balance of trade.

The categories of spending are shown in the table below. The three different approaches to measuring GDP are often used to cross check one another. The overall GDP figure from the income approach (show above) is the same as the GDP figure for the expenditure approach (£7.1billion).

Fife Economy, Gross Domestic Product (£ millions)

Final Market Expenditure	2014
Consumer spending	£4,200
Capital investment	£1,250
Government spending	£2,120
Balance of trade	-£460
of which international exports	£1,700
of which tourism (from outside Scotland)	£180
Gross Domestic Product	£7,100

SOURCE: 4-consulting (based on Office for National Statistics data)

The above table shows Fife is more export focused economy compared to the rest of Scotland. Fife businesses export £1.7 billion outside of the UK accounting for around 24% of the Fife economy. The latest figures for the Scottish National Accounts Programme (SNAP) published by the Scottish Government show international exports accounted for 18% of Scottish GDP (onshore economy).

If the whole of Scotland had matched Fife's ratio of exports to GDP then Scottish exports would have risen by more than one third, nearly £9 billion.

The international exports figure is in line with a survey based estimate for 2012 (Fife Business Matters Issue 24, September 2013). The Fife Chamber of Commerce survey showed Fife international exports (outside of the UK) at £1.2 billion in 2012.

The healthy measure of exports in 2014 does not take into account the loss of exports from Tullis Russell, other recent business closures or the downturn in the oil and gas industry.

Tourism spending across from visitors outside of Scotland stood at £180 million. This appears to be consistent with figures from the Fife's Tourism Strategy 2014-2014 which put total tourism expenditure at £313 million (this includes spending from people living in Scotland).

Capital investment as a share of GDP in Scotland stood at 16.9%, this is marginally higher in Fife at 17.6%. This may reflect the stronger presence of manufacturing in Fife and ongoing investment in plant and equipment.

The government spending figure is line with gross expenditure figures for parts of the public sector in Fife including Fife Council (£760 million 2014-15) NHS Fife (£665 million 2014-15) and Fife College (£37 million 2013-14). This overall figure also includes expenditure by central government.

Consumer spending as a share of the economy is markedly lower in Fife than elsewhere in Scotland. If the share of consumer spending in Fife's economy had matched that of Scotland then the consumer spending in Fife would be around £400 million higher.

The above figures allow the balance of trade to be shown as a share of the economy, this stood at -6.5%, just slightly ahead of Scotland at -6.8%. For most countries, large trade deficits are difficult to sustain for long without finding additional resources (including borrowing or encouraging inward investment).

Fife's Surging Surplus

The UK's Office for National Statistics (ONS) produces two separate measures for wages for regional and local economies. The first measure shows the wages (compensation of employees) paid to the employees of businesses and organisations in Fife. The second measure shows the wages earned by people living in Fife.

The difference between the measures is large enough to flip the story of Fife's economy. The table earlier in this report shows wages in Fife at just over £3.6 billion. But the latest figure (based on the ONS data) for people living in Fife suggests that income from wages is around £1.4 billion higher. This difference is mainly accounted for by commuters living in Fife but working elsewhere (mainly in the Edinburgh city region).

The ONS has produced estimates of GVA using two different approaches, on a residence basis (measuring the income accruing to residents within a UK country or region) and on a workplace basis (measuring the income paid by workplaces within a UK country or region).

If a residence basis measure was applied to Fife then the economy would be around £8.5 billion, nearly one fifth bigger compared to the workplace measure (£7.1 billion). Furthermore, if the economy were being measured using the expenditure approach then the most appropriate treatment of the additional £1.4 billion would be to include the additional activity within the balance of trade as an export of services.

Accounting for the additional commuter earnings the balance of trade stands at a surplus of around +£700 million, around +8.4% of GDP (based on GDP of £8.5 billion).

The balance of trade surplus is an important figure. Fife has limited ability to borrow money, it can't print money and doesn't store foreign currency or own gold reserves. The balance of trade will therefore closely follow the balance of government spending and revenue, the public sector deficit.

The gap between all public money spent in Fife and all tax raised in Fife reflects the relatively strong position of Fife in export earnings, tourism earnings, relatively high value activities (especially in food and drink) and a substantial net inflows of wages from commuters.

The Office for Budget Responsibility (OBR) shows that the UK government may close the deficit by 2019-2020. By any reasonable measure Fife has already closed its deficit and is now running a surplus of hundreds of millions of pounds each year.

Thomas Kane, Research Manager 4-consulting

Thomas Kane is 4-consulting's research manager having previously worked at Bank of New York Mellon and Fife council.

Thomas is Prince2 qualified consultant and manages our research and quality assurance systems across 4-consulting. He has recently worked on projects to show how different ownership structures have developed within the Scotch Whisky Industry. He also recently developed a report on asset based finance for a consortium of financial service businesses.

Contact: Thomas.Kane@4-consulting.com